

You certainly won't help yourself by underestimating costs.

- Now, what do you receive for the total amount you will pay out?
- If your franchise is not as immediately successful as you have estimated, will you be able to raise additional money to remain in business? Committing everything you have at the beginning is a very risky way of doing business.
- Is there a franchise renewal fee?

Do you understand how your agreement can be terminated?

- What are the conditions under which the franchisor can terminate your agreement? Perhaps you are an independent-minded person who likes to run his own show, make his own decisions. Deviating from the established course set up by the franchisor could result in your losing the franchise.
- Is there a provision for repurchase of equipment and inventories? What formula will be used to determine the price?
- Do you have the right to sell the franchise? Check the conditions for resale carefully.
- In the case of death, will your family be permitted to continue operation of the franchise? Under what conditions?

Where should I go for more information?

There are many good books on franchising. Try your local public library. Or you can write to:

Franchising,
The Ministry of Consumer and Commercial Relations,
555 Yonge Street,
Toronto, Ontario.

TERMS:

Franchisor: The company offering a franchise for sale.

Franchisee: The individual or group purchasing a franchise.

Something to look for

If a company offers you a franchise opportunity and says you will receive some additional reward or bonus if you recruit others who will also buy a franchise, the company may be a pyramid seller. This kind of business has special problems and some companies using pyramid sales techniques are operating in Ontario illegally. Check with us before you become involved.

Write to:

The Registrar of Pyramid Schemes,
The Ministry of Consumer & Commercial Relations,
555 Yonge Street,
Toronto, Ontario.



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Some Questions About Buying a Franchise

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Franchising is the granting of a right to operate a business within a set plan or system. The product or service being marketed is identified by a trademark and the company maintains some measure of control to assure uniformity of practices and services throughout all the franchise outlets.

For many companies, franchising is the ideal marketing method. The company requires relatively little capital for expansion because it is financed through the sale of franchises. The franchise owner becomes responsible for his own sales and his own survival.

In this kind of situation, the franchise buyer should ask himself some serious questions—about the company and its product.



**The Ontario Ministry of
Consumer and
Commercial Relations**

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How good is the company?

If the company offering you a franchise is second-rate, or is not concerned about the profitability of its franchisees, your own efforts will be wasted. You should be looking for a sound company with market potential. Get the following information.

- How long the company has been in business.
- How innovative the company is. Retailing is a fast-changing business requiring new ideas and fresh approaches. Find out if the company is thinking about or exploring new products, services, or sales methods.
- The company's reputation in the business community. Check with your bank or a credit agency, the Better Business Bureau, or the provincial Ministry of Consumer and Commercial Relations.
- The company's reputation with its franchise owners. Ask people who are already in the business what they think about the company.
- How long the present management has been with the company. You should be looking for a stable company that has attracted businessmen who intend to stay with the business.
- If you are asked to take over an existing franchise, why did the previous franchise owner leave? Check the company's answer and get both sides of the story.
- Take the franchise agreement to a lawyer and to an accountant. It's worth it. No company worth joining will have any argument with your seeking independent professional advice. And you should know exactly what you are getting into.
- The company's financial records. Make sure they have been signed by a Chartered Accountant. That way you know they have been audited and found to be correct.
- How the company makes its money. The company should be making money because its franchisees are doing well, not because it is constantly selling new franchises or reselling existing ones. It should be product sales conscious.

How good are the product and the market?

Selling the product or service is the only way you will make money. You should know everything there is to know about it and the place where you are going to sell

it. Make sure you have sound information on the following:

- The availability of the product. Is it available now or is it only in the planning stage?
- The length of time it has been on the market. Is it likely to be replaced by something more up-to-date or easier to handle?
- Ask yourself if the product or service is seasonal or year round, a fad or something people really need, a luxury item or a service.
- Can you buy similar products at other outlets around where you will be selling? How many other outlets are there?
- Check the price of your product against that of your competitors. Maybe you have the right product, but the wrong price. Ask yourself if you would rather work for your competition. Does he have any advantages?
- Does your company manufacture the product or just distribute it? If the company is just the distributor, there is a danger you could be cut off or undersold. What guarantee does your company have that it will be able to continue getting the product for you at a good price?
- A good product has a manufacturer's guarantee. Does yours? If you sell something you wouldn't buy yourself, you probably won't sell it well.
- Does your market size fluctuate seasonally? Is the population in the area rising or falling?
- Check with local municipal officials about by-laws in your market area that might affect your franchise. Ask if there are any plans for changes in traffic patterns or redevelopment which could seriously affect the business in your proposed location.

What does the company offer you?

No good company will just leave you on your own. They should be prepared to offer you assistance, including:

- A good location. Check carefully to see if your location is guaranteed and the territory protected from entry by other franchisees from the same company. Is your territory clearly defined?
- A training program for you and your employees. Ask for a detailed description in writing of the training you are promised.

- Professional services. Be certain in advance exactly what continuing assistance in the way of managerial advice, accounting and advertising will be made available to you. Find out how much these will cost you.
- Does the company place your deposit for purchase of the franchise into trust or escrow until the day your outlet actually opens? You have much more protection if it does.
- A sensible way of resolving conflicts. You should find out how the company has resolved its differences with its franchise owners in the past. Check the franchise agreement to see if there is a clause covering this. Many unfortunate franchisees have discovered that disputes are settled by the company terminating the franchise agreement.

What will the franchise cost you?

There are many hidden costs in running a business. Here are some you should look for:

- The amount of the franchise fee and what you get for it.
- How difficult will it be to raise funds to buy a franchise? If the company will supply the funds, what will this cost? Check the interest rate against that charged by other financial institutions.
- What is your guarantee that the company will provide prompt delivery of the product or supplies? Is there a penalty for delay?
- Are you obligated to buy supplies and equipment from companies specified by the franchisor?
- What are the continuous financial obligations you have to the company? There may be royalties, advertising fees, mandatory supply purchases, accounting fees, or charges for other services. You should check to see if the company can arbitrarily change any of the prices for these.
- Do you believe that the company's estimates of your potential earnings are reasonable? If the company gives you an example of earnings, check them against your location, size of market, business hours, and seasonal factors. Is the example you are given really comparable to what you will have?
- What is the total amount you will need to join the franchise? Include everything in this total cost—even a provision for the value of your time and labour.